

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



PROCEDURAL REPORT  
ISSUED OCTOBER 29, 2008

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

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LOUISIANA LEGISLATIVE AUDITOR  
STEVE J. THERIOT, CPA

October 15, 2008

**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, 2006, through June 30, 2008. 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 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 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 Reports of MHAB were not audited or reviewed by us, and, accordingly, we do not express an opinion on these reports. 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 July 25, 2006, we reported a finding relating to the lack of a disaster recovery/business continuity plan. This finding has been resolved by management.

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

**Inadequate Controls Over Inventory**

MHAB failed to establish adequate controls over its inventory, which totaled \$1,517,196 at June 30, 2007, and \$1,215,989 at June 30, 2008. Good internal controls include designing and implementing a system to ensure that inventory assets are adequately

safeguarded and accurately valued and recorded. Our tests of 38 inventory items from MHAB's March 10, 2008, inventory report disclosed errors in the recorded count for 17 items (45%) resulting in an overstatement of its reported inventory totaling \$14,315.

Although MHAB has a perpetual inventory system, it has not established adequate procedures to ensure that inventory receipts and disbursements are accurately recorded in the system, nor has MHAB performed periodic counts to ensure the perpetual system is working properly.

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. MHAB should design and implement controls to ensure that its inventory assets are adequately safeguarded and accurately valued and recorded. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A).

The recommendation in this report represents, in our judgment, that most likely to bring about beneficial improvements to the operations of MHAB. The nature of the recommendation, its implementation cost, and its potential impact on the operations of MHAB should be considered in reaching decisions on courses of action.

This report is intended solely for the information and use of the MHAB and its management 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

RLW:CGEW:BQD:THC:dl

MHAB08

Management's Corrective Action  
Plan and Response to the  
Finding and Recommendation





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

August 28, 2008

Mr. Steve J. Theriot, CPA  
Legislative Auditor  
State of Louisiana, Office of Legislative Auditor  
1600 North Third Street  
P. O. Box 94397  
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

RE: Audit Finding, Inadequate Controls over Inventory

In response to the letter dated August 15, 2008 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.

We were developing a plan and implementing some changes that were shared with the auditing staff while they were on site. Since their departure, we have enhanced our process and have implemented a plan to follow for the next fiscal year, with ongoing monitoring by Fiscal Administration. Due to shortages of staff in the Warehouse area, we implemented a plan to ensure that inventory receipts and disbursements are accurately and timely recorded on the tickets prior to submission for entering into the computerized perpetual inventory system. We have also implemented a process to track all issue receipts to ensure they are posted to the computerized perpetual inventory system. We strengthened our perpetual inventory counts with our latest fiscal year end close actual inventory count and we plan on periodic counts during the fiscal year of various items to validate the computerized perpetual inventory system. All discrepancies in future counts will be researched and verified to determine any weaknesses in our procedures.

Some of the specific implementations in our plan to ensure accuracy of inventory receipts and disbursements and accuracy of postings to the computerized perpetual inventory system include:

- Post signs to identify items by inventory name, unit of measure, and inventory number
- Begin using pre-printed inventory issue tickets listing item number and description
- Number all issue tickets received and track status on a computerized log sheet
- Account for completed issue tickets and batch; and track pending incomplete issue tickets
- Assign batch numbers and submit tickets for posting to computerized perpetual inventory
- Perform periodic counts and verifications to computerized perpetual inventory
- Review postings through tracking of computerized entries to ISIS documents prepared

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We will continue to implement and monitor these new procedures over the next fiscal year. The persons responsible for implementing this plan and testing the outcomes are Janet O'Dell, Deanne Mills, and Laura Lott. If you have any questions, please contact them at 342-8740.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Anders", with a stylized flourish at the end.

Mark Anders  
Chief Executive Officer

MA/jo

Encl.

CC: Janet O'Dell  
Jean Mulmore  
Jo Pine  
Jeff Reynolds  
Gwen Johnson