

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

New Orleans Adolescent Hospital  
Office of Mental Health  
Department of Health and Hospitals  
State of Louisiana  
New Orleans, Louisiana

August 25, 1999



***Financial and Compliance Audit Division***

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

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**NEW ORLEANS ADOLESCENT HOSPITAL  
OFFICE OF MENTAL HEALTH  
DEPARTMENT OF HEALTH AND HOSPITALS  
STATE OF LOUISIANA  
New Orleans, Louisiana**

**Management Letter  
Dated August 3, 1999**

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.

**August 25, 1999**



OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-9397

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

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August 3, 1999

**NEW ORLEANS ADOLESCENT HOSPITAL  
OFFICE OF MENTAL HEALTH  
DEPARTMENT OF HEALTH AND HOSPITALS  
STATE OF LOUISIANA  
New Orleans, Louisiana**

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 1999, we conducted certain procedures at the New Orleans Adolescent Hospital, Office of Mental Health, Department of Health and Hospitals. Our procedures included (1) a review of the hospital's internal controls; (2) tests of financial transactions for the years ending June 30, 1999, and June 30, 1998; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the years ended June 30, 1999, and June 30, 1998; and (4) a review of compliance with the prior year report recommendations.

The Annual Fiscal Reports of the New Orleans Adolescent Hospital are not within the scope of our work, and, accordingly, we offer no form of assurance on those reports. The hospital's accounts, under the 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 selected management personnel and other 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 June 23, 1997, on the New Orleans Adolescent Hospital, we reported a finding relating to inadequate controls over accounts receivable. 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.

**Inadequate Controls Over Accounts Receivable**

For the second consecutive audit, the New Orleans Adolescent Hospital did not have adequate controls over accounts receivable and has not complied with the Department of Health and Hospitals (DHH) policies for patient billings and collections. Under DHH's

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NEW ORLEANS ADOLESCENT HOSPITAL  
OFFICE OF MENTAL HEALTH  
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STATE OF LOUISIANA

Management Letter, Dated August 3, 1999

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policies, charges for services rendered during a month should be billed the beginning of the succeeding month; invoices for outstanding receivables should be sent monthly; and collections should be posted to the patient's account at the time a payment is received. In addition, billings that contain unallowable charges should be adjusted during the billing process. After 90 days, delinquent accounts should be submitted to DHH Central Collections for further action. Our review of patient billings disclosed the following:

- Four of 14 patient files (29%) tested indicated that the patients were not billed until 50 days to 11 months after services had been rendered. In addition, there is no documentation that invoices were sent for outstanding receivables related to self-pay patients during December 1997 and June and July 1998.
- Two of 11 collections (18%) tested were not posted to the patients' accounts for 196 days and 2 years, 11 months, respectively, after the payments were received.
- Nineteen of 20 patient accounts (95%) tested had unallowable charges that should have been adjusted for services that were not covered by Medicaid, private insurance, and/or self-pay patients. Unallowable charges are caused by the hospital not obtaining pre-certification from the insurance or Medicaid provider, by parents or guardians ignoring past and/or current service dates when obtaining Medicaid eligibility, or by a provider who approves and pays for a shorter hospital stay for a patient who is confined for a long-term hospital stay. In addition, private insurance companies will deny payment because the policy does not cover the type of services rendered.
- Nine of 12 patient receivable accounts (75%) adjusted as a result of unallowable charges did not have management approval or proper supporting documentation to explain the adjustments.

Failure to comply with DHH's policies and procedures over accounts receivable may result in errors and/or fraud not being detected in a timely manner.

The New Orleans Adolescent Hospital should comply with DHH's policies and procedures to ensure the timeliness of patient billing and collections. Management concurred in part with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

## LEGISLATIVE AUDITOR

NEW ORLEANS ADOLESCENT HOSPITAL  
OFFICE OF MENTAL HEALTH  
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STATE OF LOUISIANA

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### **Inadequate Controls Over Payroll**

The New Orleans Adolescent Hospital did not consistently follow its internal control procedures related to the timely processing of time and attendance sheets. The Office of State Uniform Payroll has implemented an on-line time entry system to facilitate daily time and attendance entries, including a window of time to permit adjustments on the Monday following the end of each pay period. For the pay period ended February 21, 1999, completed time and attendance sheets were not on hand for 49 of 384 employees (17%). The following deficiencies were noted for the 49 time and attendance sheets not on hand:

- One employee that was temporarily reassigned to another agency received a bi-weekly salary although the employee had not submitted a time and attendance sheet since December 13, 1998.
- For the February 21, 1999, pay period, the payroll was processed without completed time and attendance sheets. Time and attendance sheets were submitted 9 days late for 14 employees, 4 days late for 7 employees, 3 days late for 6 employees, 2 days late for 7 employees, and one day late for 14 employees.

These conditions exist because the hospital has not placed sufficient emphasis on enforcing the controls over the payroll system. Failure to maintain an adequate system of internal controls to comply with rules and regulations established by the Office of State Uniform Payroll increases the risk that errors and/or fraud may occur and not be detected in a timely manner.

The New Orleans Adolescent Hospital should enforce the controls over the payroll system to ensure that the time and attendance sheets are processed timely. Management concurred with our finding and recommendation (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 the hospital. The varying nature of the recommendations, the implementation costs, and the potential impact on operations of the hospital should be considered in reaching a decision on a course of action.

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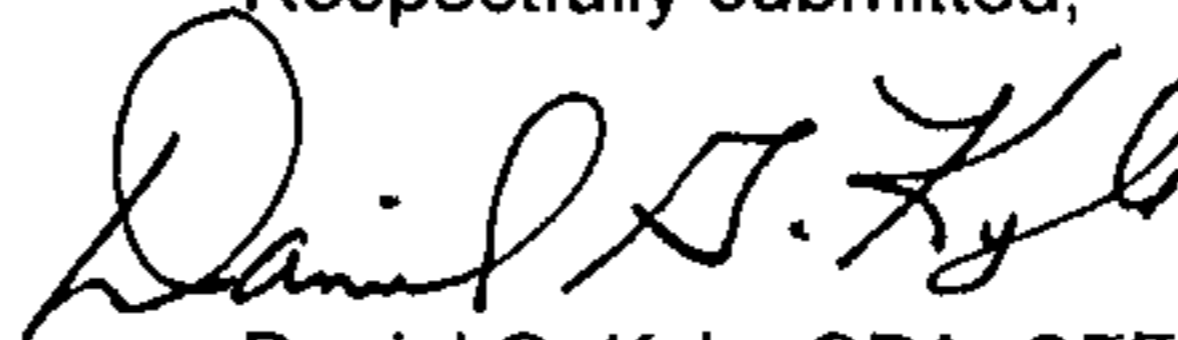
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OFFICE OF MENTAL HEALTH  
DEPARTMENT OF HEALTH AND HOSPITALS  
STATE OF LOUISIANA

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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 fluid and cursive, with a large initial "D" and "K".

Daniel G. Kyle, CPA, CFE  
Legislative Auditor

EB:LWM:RCL:dl

[NOAH]

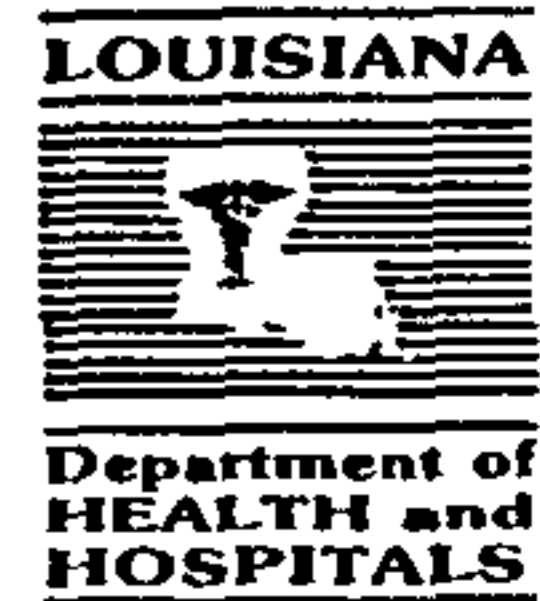
## Appendix A

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





State of Louisiana  
DEPARTMENT OF HEALTH AND HOSPITALS



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

David W. Hood  
SECRETARY

July 15, 1999

A handwritten signature in cursive script, likely belonging to David W. Hood.

Daniel G. Kyle, Ph.D., CPA, CFE  
Legislative Auditor  
1600 North 3<sup>rd</sup> Street  
Baton Rouge, LA 70802

Re: New Orleans Adolescent Hospital, 1999 Audit  
Response To Audit Finding: Inadequate Control Over Accounts Receivable

Dear Dr. Kyle,

This is to respond to the finding as a result of our 1999 audit wherein it was concluded that the New Orleans Adolescent Hospital had inadequate controls over accounts receivable.

We concur in part with the finding and offer the following as our comments and corrective plan of action for the four areas of concern:

1. Charges for services rendered should be billed monthly,
2. Collections should be posted to patient's account at the time payment is received,
3. Unallowable charges should be adjusted during the billing process,
4. Management approval or proper documentation is required for account adjustments which do not occur in conjunction with patient account payment or denial actions.

In order to correct item one, the hospital has developed a report (see attachment 1) to be run by the Accounts Receivable Supervisor, Derek Beloney, on a semi-monthly frequency which itemizes all hospital discharges. This report is used as a checklist for the inspection of all discharged patients' accounts to verify that the accounts are in order and all necessary billing is complete.

New Orleans Adolescent Hospital  
Office of the Chief Executive  
(504) 897-4616, FAX (504) 896-4959  
210 State Street, New Orleans, Louisiana 70118  
"AN EQUAL OPPORTUNITY EMPLOYER"

Daniel G. Kyle, Ph.D, CPA, CFE  
Legislative Auditor  
July 15, 1999  
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Item two resulted from two (2) payments which were received but not posted in a timely manner. In order to prevent the recurrence of this error all payments will be posted at the time of receipt. To verify that all payments have been posted, the amount of payments posted in the patient accounts system (PIF) will be reconciled by the Fiscal Director, David Adcock, to the amounts of revenue posted in the AFS as indicated in the monthly "2G15" Appropriation Report.

Item three cited our failure to make timely adjustments of unallowable charges from the Medicaid and Insurance ledgers. The posting policy has been amended so that now all unallowable charges are adjusted by the servicing Accounting Specialist (with the approval of Derek Beloney, Accounts Receivable Supervisor) at the time a partial payment is received or upon the receipt of notification from a third party payor that the charges are ineligible for reimbursement. It should be noted that these "unallowable charges" are a procedural adjustment in order to shift the liability for services rendered from one payor source to another payor source.

Item four speaks to the need for management approval or adequate documentation for account adjustments which are delinquent. Because we have changed our procedures as noted above to have very timely account adjustments we do not expect delinquency in our procedural adjustments to be a recurring problem, however, we will amend our policies (see attachment 2) to require CEO approval for delinquent procedural adjustments.

All of the indicated corrective actions have already been implemented. We wish to thank you and your staff for your comments and suggestions which will reduce the possibility of lost revenues and improve our effectiveness. If you have any questions or need additional information please let me know.

Sincerely,

Walter W. Shervington, M.D.  
Chief Executive Officer

ATTACHMENT 1

NEW ORLEANS ADOLESCENT HOSPITAL  
 New Orleans, LA  
 DISCHARGE REPORT  
 Period : June 15, 1999 to June 30, 1999

HOSP NUM	PATIENT NAME	DC DATE	ADM DATE
000 [REDACTED]	JE [REDACTED] OLM	06/16/99	06/02/99
0000 [REDACTED]	SH [REDACTED] A	06/16/99	05/20/99
000 [REDACTED]	LE [REDACTED]	06/17/99	05/28/99
000 [REDACTED]	MA [REDACTED] ES	06/17/99	05/19/99
000 [REDACTED]	I [REDACTED] Y	06/18/99	05/27/99
0000 [REDACTED]	A [REDACTED] MAN	06/21/99	06/01/99
0000 [REDACTED]	CA [REDACTED] ROBERT	06/21/99	05/28/99
0000 [REDACTED]	MA [REDACTED] A	06/21/99	05/19/99
0000 [REDACTED]	J [REDACTED] MIE	06/22/99	05/24/99
0000 [REDACTED]	W [REDACTED] Y	06/22/99	05/31/99
0000 [REDACTED]	B [REDACTED] DON	06/23/99	06/05/99
0000 [REDACTED]	SU [REDACTED] LONNIE	06/23/99	05/17/99
0000 [REDACTED]	SM [REDACTED] DRA	06/25/99	05/19/99
0000 [REDACTED]	D [REDACTED] IA	06/28/99	06/24/99
0000 [REDACTED]	A [REDACTED] VIN	06/29/99	06/18/99
0000 [REDACTED]	M [REDACTED] LL	06/29/99	06/14/99
0000 [REDACTED]	S [REDACTED] EY	06/29/99	05/27/99
0000 [REDACTED]	H [REDACTED] Y	06/30/99	06/09/99
0000 [REDACTED]	H [REDACTED] E	06/30/99	06/07/99

**ATTACHMENT 2**

New Orleans Adolescent Hospital  
210 State Street  
New Orleans, Louisiana 70118

**REQUEST FOR DELINQUENT ADJUSTMENT OF ACCOUNTS RECEIVABLE**

Patient Name:

Patient Number:

Responsible Party:

Amount To Adjust:

Reason For Request: (Check all that apply)

- Transfer of liability to Self-Pay Ledger.
- Medicaid contractual adjustment.
- No insurance eligibility.
- Account correction. (Please explain)
- Other. (Please explain)

Justification/Remarks for delinquency:

Approvals

\_\_\_\_\_  
Accounts Receivable Supervisor:

\_\_\_\_\_  
Fiscal Director

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

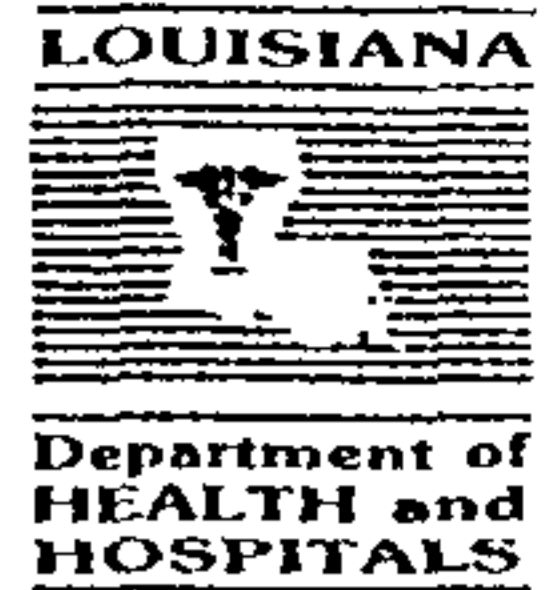
\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Date

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State of Louisiana  
DEPARTMENT OF HEALTH AND HOSPITALS



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

David W. Hood  
SECRETARY

May 27, 1999

Daniel G. Kyle, PH.D, CPA, CFE  
Legislative Auditor  
Xerox Center, suite 260  
2400 Veterans Boulevard  
Kenner, Louisiana 70062

**RE:** Inadequate Controls Over Payroll

Dear Dr. Kyle:

A review of the policy and procedures regarding submission of time sheets indicates that they are sufficient and need not be revised. Department heads and supervisors, who are responsible for submittal of time sheets, will be reminded about the importance of submitting time sheets by the appropriate deadlines.

Audits will be completed, and department heads/supervisors not in compliance will be counseled on an individual basis. If counseling does not improve the deficiency, more serious action(s) will be considered.

Sincerely

Sandra Gorbaty, Director  
Human Resource Department

SG:lc