

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Office of Public Health
Department of Health and Hospitals
State of Louisiana
New Orleans, Louisiana

January 21, 1998



Financial and Compliance Audit Division

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

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

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for infant formula in partial food packages supplied by Mead Johnson & Company totaled \$760,140 for the period October 1996 through June 1997.

Failure to bill for infant formula rebates timely can result in overclaims against the federal WIC grant and in cash management problems that could result in interest costs to the state, as well as the use of state funds to reimburse the federal grantor for the unbilled rebates.

CPH should implement the appropriate control procedures needed to ensure accurate and timely billing of all infant formula rebates and to ensure compliance with WIC and CMS allowable program cost. In a letter dated September 17, 1997, Mr. Joseph D. Kimbrell, Deputy Assistant Secretary, Office of Public Health, concurred with the finding and stated that new software has been developed and new procedures have been implemented to ensure timely billing. Mr. Kimbrell reported that CPH is now current in billing for the partial food packages.

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

JCSLW:d

LEGISLATIVE ASSISTANT

OFFICE OF PUBLIC HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
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requires the state agency to identify disposition of all food instruments by performing a reconciliation of each food instrument issued with food instruments redeemed within 150 days of the first valid date for participant use.

Because of a problem with the loading of data from the food instruments issue sites to the mainframe and a computer software glitch, there are 18,305 unmatched instruments as of June 30, 1997. Included in the 18,305 unmatched records are 3,771 food instruments, totaling approximately \$132,500, that are not reconciled within 150 days of the first valid date for participant use. This is a considerable improvement from unmatched records as of May 31, 1996, totaling 168,168. By not identifying the disposition of food instruments within 150 days of the instrument's validation date, lost, stolen, or expired instruments could be cashed and not detected in a timely manner. Also, the Code of Federal Regulations [7 CFR 346.23(a)-(4)] states that the Food and Nutrition Service of the U.S. Department of Agriculture could issue a claim against OPH for its unreconciled instruments.

OPH should work diligently with the food instruments issue sites to ensure that the required data from the issue sites are uploaded to the mainframe in a timely manner. Until this problem is resolved, the reconciliation of food instruments issued with food instruments redeemed cannot be completed within the required 150 days. In a letter dated September 17, 1997, Mr. Joseph D. Kimbrell, Deputy Assistant Secretary, Office of Public Health, concurred with our finding and outlined corrective action that has been taken to resolve the problem. Mr. Kimbrell reported that since the new procedure has been implemented, the drafts unreconciled have declined from 3,771 to 800.

Untimely Billing of Infant Formula Rebates

OPH failed to bill infant formula manufacturers timely for rebates covering all infant formula used in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). According to competitive rebate contracts between OPH and the infant formula companies, OPH is to receive rebates for infant formula used in the WIC program. Rebates reduce food cost and enables WIC to reach more participants with a given amount of funds.

The Child Nutrition and WIC Reauthorization Act of 1996 (Public Law 104-147) requires WIC state agencies to implement cost containment initiatives. Also, the Office of Management and Budget (OMB) Circular A-87, Attachment A (C)(1)(i) states that program cost must be net of applicable credits. OPH overlooked billing Ross Products Division for infant formula used in the gray or partial food packages for the period October 1994 through December 1996. On August 20, 1997, OPH billed Ross Products Division for infant formula rebates, totaling \$2,023,500. In addition, rebates

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Inadequate Controls Over Movable Property

For the ninth consecutive year, the Office of Public Health (OPH) has not implemented the appropriate internal control procedures to ensure that all movable property regulations, as prescribed by the Commissioner of Administration and Louisiana laws, are followed. An adequate system of internal controls requires that control procedures be in place to ensure that movable property is properly safeguarded against loss arising from unauthorized use, that movement of items from one location to another is recorded, and that errors in processing transactions are recognized and corrected in a timely manner. In addition, Louisiana Revised Statute (R.S.) 39:321 and Louisiana Administrative Code 34:V8.307 require that acquisitions be tagged and information be forwarded to the Louisiana Property Assistance Agency (LPPAA) within the 45-day period of receipt of the movable property item. Our tests of movable property disclosed the following:

- We reviewed the movable property listing for 417 additions to inventory for February, March, and April 1997. We noted that of the 417 additions recorded, 267 items (64 percent) were not entered timely. Also, OPH took over 150 days to enter 189 acquisitions into inventory (45 percent).
- Our tests of 50 items on invoices for movable property purchased during January through April 1997 revealed that 17 items (34 percent) were not tagged, 12 items (24 percent) were not reported to the LPPAA within the 45-day period required by state regulations, and another 8 items (16 percent) were not found in the Property Control System.

By not implementing appropriate control procedures to ensure the accurate and timely recording of movable property, OPH cannot be assured that movable property is properly safeguarded against loss arising from unauthorized use, that errors in processing transactions are recognized and corrected in a timely manner, and that all property regulations are followed. In a letter dated September 2, 1997, Dr. Jimmy Guiry, Assistant Secretary, Office of Public Health, concurred with our finding and outlined corrective action that has been taken to resolve the problem.

Reconciliation of Food Instruments Not Performed Within 150 Days

For the fourth consecutive year, OPH has not been able to perform a reconciliation of each food instrument issued with food instruments returned for the Special Supplemental Food Program for Women, Infants, and Children (SPFWIC) within the required 150 days. The Code of Federal Regulations (CFR 246.13(n))



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November 25, 1997

OFFICE OF PUBLIC 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, 1997, we conducted certain procedures at the Office of Public Health, Department of Health and Hospitals. Our procedures included (1) a review of the office'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 report recommendations.

The Annual Fiscal Report of the Office of Public Health was not audited or reviewed by us, and, accordingly, we do not express an opinion or any other form of assurance on that report. The office's accounts 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 office personnel. We also 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.

In our prior management letter for the year ended June 30, 1995, we reported findings relating to movable property records, reconciliation of food instruments, dual participation in federal programs, and local vendor controls. The findings related to dual participation in federal programs and food vendor controls have been resolved by management. The findings relating to movable property records and reconciliation of food instruments 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.

**OFFICE OF PUBLIC HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
New Orleans, Louisiana**

**Management Letter
Dated November 25, 1997**

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.

January 21, 1998