

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Pinecrest Developmental Center
Office for Citizens With
Developmental Disabilities
Department of Health and Hospitals
State of Louisiana
Pineville, Louisiana

September 29, 1999



Financial and Compliance Audit Division

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

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LEGISLATIVE AUDITOR

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

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**PINECREST DEVELOPMENTAL CENTER
OFFICE FOR CITIZENS WITH
DEVELOPMENTAL DISABILITIES
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Pineville, Louisiana**

**Management Letter
Dated July 21, 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 office of the Legislative Auditor and at the office of the parish clerk of court.

September 29, 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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July 21, 1999

**PINECREST DEVELOPMENTAL CENTER
OFFICE FOR CITIZENS WITH
DEVELOPMENTAL DISABILITIES
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Pineville, 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 Pinecrest Developmental Center. Our procedures included (1) a review of the center's internal control; (2) tests of financial transactions for the years ended 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 Pinecrest Developmental Center were not audited or reviewed by us, and, accordingly, we do not express an opinion or any other form of assurance on those reports. The center's accounts are an integral part of the State of Louisiana's annual financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

Our procedures included interviews with selected management 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 on the center for the year ended June 30, 1997, we reported a finding concerning the internal audit function. Management has resolved this finding.

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

**Noncompliance With State's Movable
Property Regulations**

Neither Pinecrest Developmental Center nor its satellite agency, Leesville Developmental Center, has maintained adequate internal control to ensure that movable property is properly and accurately reported to the Louisiana Property Assistance Agency (LPAA) in compliance with state movable property regulations. Good internal

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control requires that adequate control procedures be in place to ensure that the acquisition, valuation, and disposition of movable property is accurately reflected in the accounting records and that amounts recorded in the financial statements are materially correct. In addition, state property control regulations, as defined in the Louisiana Administrative Code 34:VII.307, require all acquisitions of qualified property to be tagged and pertinent inventory information sent to LPAA within 45 days of receipt of the property. The centers reported additions of \$543,082, deletions of \$483,525, and an ending balance of \$4,436,726 at June 30, 1998.

A review of movable property disclosed the following weaknesses:

- The property control property manager at Pinecrest Developmental Center reported 47 items of equipment, totaling \$118,449, to LPAA from 47 working days to more than two years after the items were received by the center.
- As of March 1999, the accountant at Pinecrest Developmental Center had not prepared reconciliations between ISIS (general ledger) and LPAA reports since May 1998. The accountant at Leesville Developmental Center had not prepared reconciliations since June 1998.
- Neither Pinecrest Developmental Center nor Leesville Developmental Center has procedures to test the annual certifications made by the departmental property managers to ensure that all information is complete and accurate.
- The property manager at Pinecrest Developmental Center prepares the necessary documentation to delete items from the inventory without any independent review or approval.

Because of these deficiencies, management of the centers cannot provide reasonable assurance that movable property is adequately safeguarded, that accountability is maintained, and that errors or fraud is detected within a timely period.

Management should establish procedures to ensure the centers' compliance with state movable property regulations and to provide for proper accountability and reporting of movable property. Procedures should include an independent review of annual certifications and of the documents prepared to delete equipment items from the

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STATE OF LOUISIANA**

Management Letter, Dated July 21, 1999

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inventory. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

Inadequate Payroll Policies and Procedures

Pinecrest Developmental Center does not have adequate controls in place to ensure that time and attendance records are complete and accurate before employees are paid. Good internal control provides for a timely review of transactions to ensure data are accurate and reliable and that errors and/or fraud can be detected timely. A review of 46 sign-in sheets disclosed the following:

- Supervisors are not consistently certifying time and attendance reports before employees are paid. Of the 46 sign-in sheets examined, 19 or 41% were certified from 2 to 49 days after the pay period ended. This practice resulted in the payment of \$315 to an employee for hours not worked. Management was unable to recover the overpayment.
- Supervisors did not approve four leave slips before the pay periods ended, as required by the center's formal written procedures. One of the four leave slips was not dated to indicate when the supervisor actually approved the leave.
- Three employees' reports of non-payable overtime were not completed properly. One employee's report of non-payable overtime was signed but not dated by the supervisor. Also, one employee who is also a timekeeper had several reports of non-payable overtime for one pay period that were not approved until seven days after the paychecks were processed. In addition, there was no report of overtime to support 17 hours of overtime reflected on an employee's sign-in sheet and entered by the timekeeper.
- As of May 3, 1999, one timekeeper was three pay periods behind in posting prior-period adjustments. One of the adjustments not yet posted was to record an additional one-half hour of leave to her personal leave records.
- One of the eight timekeepers tested failed to secure the original time records for a previous pay period. She sent the original records back to employees and supervisors to make corrections.

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The center's current formal written policies and procedures for processing time and attendance information does not specify the dates and times when employees, supervisors, and timekeepers must complete their assigned duties and responsibilities. Furthermore, management has not emphasized the importance of those procedures by performing periodic reviews to determine whether the policies and procedures are being followed. As a result, public assets are placed at an increased risk of loss because of errors and/or fraud that is not detected timely.

Pinecrest Developmental Center should develop and implement comprehensive policies and procedures to ensure that time and attendance records are processed properly and in a timely manner. Management should then periodically monitor those controls to ensure that they are operating as management intended. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 3).

Inadequate Controls Over Inventory of Materials and Supplies

Pinecrest Developmental Center does not have adequate procedures to ensure that its inventory of materials and supplies is properly reported in the financial statements and that the inventory is adequately safeguarded. Assets are at risk when procedures fail to include an adequate segregation of duties so that no one employee would be in a position to both initiate and conceal errors or fraud. Pinecrest Developmental Center and its satellite agency, Leesville Developmental Center, maintain both periodic and perpetual inventories, depending on the type of material or supply that is being maintained. A review of the controls over these materials and supplies inventories disclosed the following weaknesses:

- No reconciliation of issues and receipts in the perpetual inventory records to the increases and decreases in the general ledger has been performed since June 1997. Management was not aware that the required reconciliations were not prepared, and no other procedures were performed to determine the completeness and accuracy of the data reported in the center's annual financial statements for June 30, 1998. For the fiscal year ended June 30, 1998, receipts and issues totaled \$5,163,077 and \$5,177,084, respectively. For the nine-month period July 1, 1998, through March 31, 1999, receipts and issues totaled \$3,618,914 and \$3,425,657, respectively.

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- The custodians of the perpetual inventories complete final count sheets that summarize the physical count of the inventories. These sheets are used to compute discrepancies between the counts and the perpetual records. Although employees other than the custodians perform test counts during the inventory process, these independent reviewers do not review the final count sheets. An adequate segregation of duties would require a review of the final count sheets by independent reviewers. The perpetual inventory at June 30, 1998, totals \$914,991 and represents 66% of the center's total inventory.
- The custodians of the periodic inventories receive, issue, and perform the physical count of these items, with no independent review of the physical count by another employee. An adequate segregation of duties would require that separate employees perform these functions or that there is a timely review of each function by another employee. The periodic inventories stored in various departments at June 30, 1998, total \$480,295 and represent 34% of the center's inventory.
- The custodian of the perpetual inventory at Leesville Developmental Center receives, issues, performs the physical counts, and updates the perpetual records. The center adjusts only the quantity of the items and does not determine the value of any adjustments. An adequate segregation of duties would require that separate employees perform these functions or that there is a timely review of each function by another employee. The value of the inventory at June 30, 1998, is \$40,396. For the fiscal year ended June 30, 1998, unadjusted receipts and issues totaled \$84,618 and \$78,689, respectively. For the nine-month period July 1, 1998, through March 31, 1999, unadjusted receipts and issues totaled \$80,051 and \$58,104, respectively.

Management has not implemented control procedures that can provide them with adequate assurance that the centers' inventory of materials and supplies is properly reported in the financial statements and is adequately safeguarded. As a result, there is an increased risk that errors or fraud could occur and not be detected in a timely manner.

Management should implement procedures that will ensure that there is an independent review, including test counts and required reconciliations, of the data used to prepare the annual financial statements and that there is an adequate separation of duties

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between the receipt, issues, and recording functions. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 5).

Inadequate Controls Over Cash and Cash Accounts

Pinecrest Developmental Center has not maintained adequate internal control over its cash collections and cash accounts at the Leesville Developmental Center satellite location. Adequate controls would ensure that all cash receipts are safeguarded, deposited timely, and recorded properly. Furthermore, Article VII, Section 9 of the 1974 Louisiana Constitution and Louisiana Revised Statute 49:308 require the deposit of all money received by state agencies in the state treasury immediately upon receipt. A review of the controls over cash collections revealed the following weaknesses:

- The Social Services Department collects all cash and prepares written receipts. The money is placed in a locked metal box, which is kept in a file cabinet. However, the key to the metal box is accessible to all employees.
- Checks are not stamped with a restrictive endorsement until they are prepared for transmittal to the Accounting Department for deposit.
- Social Services Department employees do not reconcile the written receipts to total collections when the funds are transmitted to the Accounting Department for deposit. Auditors attempted to trace individual written receipts to the supporting documentation for two deposits of Auxiliary Fund receipts and for four deposits of Client Account receipts. Seven receipts, totaling \$348, could not be traced to a deposit.
- The Social Services Department remits receipts to the Accounting Department twice each month for the clients' accounts and once each month for the Auxiliary Fund. A review of 143 receipts, totaling \$5,587, disclosed that \$3,504 or 62.7% of the funds were deposited between 4 and 25 days after receipt.
- Auxiliary Fund receipts are deposited into the agency's Imprest Fund bank account instead of being remitted to the state treasury. The center remitted the 1997-98 fiscal year collections, totaling \$16,347, to the state

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treasury in September 1998; 1998-99 fiscal year collections, totaling \$10,133, had not been remitted as of May 4, 1999.

A review of the controls over cash accounts revealed the following weaknesses:

- The subsidiary ledger or listing of client account balances is not reconciled to the bank balance. A review of three months revealed that the bank balance exceeded the subsidiary ledger balance by \$356, \$314, and \$552.
- The center maintains neither a control account nor individual ledger sheets for charge customers for its auxiliary service. This information is currently maintained in a loose-leaf binder that requires center personnel to perform several different processes to determine the amount due from each customer.

Management of the Leesville Developmental Center has not placed adequate emphasis on developing, implementing, and monitoring controls and procedures over cash collections and cash accounts. Adequate control procedures include the timely update and reconciliation of subsidiary and control accounts, including bank accounts. Failure to properly control and account for cash collections and cash accounts subjects public funds to possible loss because of human error, theft, or misuse. Furthermore, inadequate procedures for Auxiliary Fund receipts place the center in noncompliance with the provisions of the 1974 Louisiana Constitution and Louisiana Revised Statutes that require timely deposit into the state treasury.

Pinecrest Developmental Center should develop and implement adequate controls to ensure that all cash receipts at the Leesville Developmental Center are safeguarded, deposited timely into either the center's bank account or the state treasury, and are recorded properly. Cash collections should be reconciled with written receipts and deposited daily. Furthermore, adequate control and subsidiary records should be established and reconciled on a current basis. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 7).

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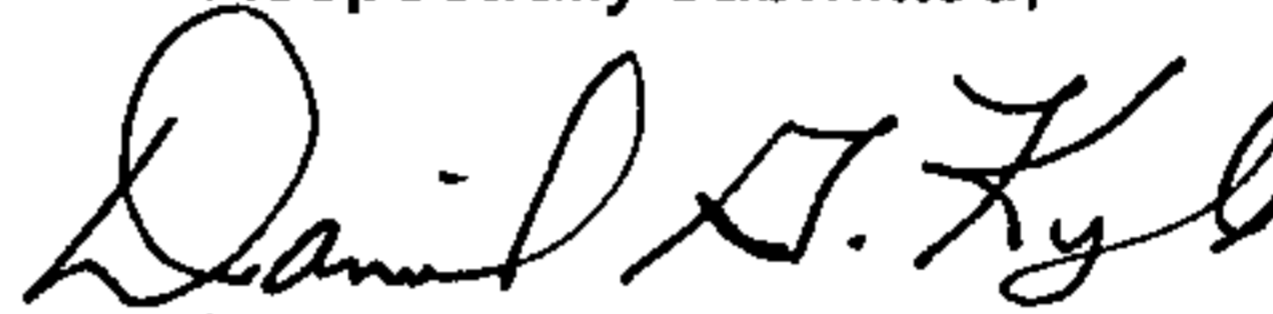
**PINECREST DEVELOPMENTAL CENTER
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STATE OF LOUISIANA**

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This report is intended for the information and use of the developmental center 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 written in a cursive style with a large initial "D".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

WJR:MAN:DSP:dl

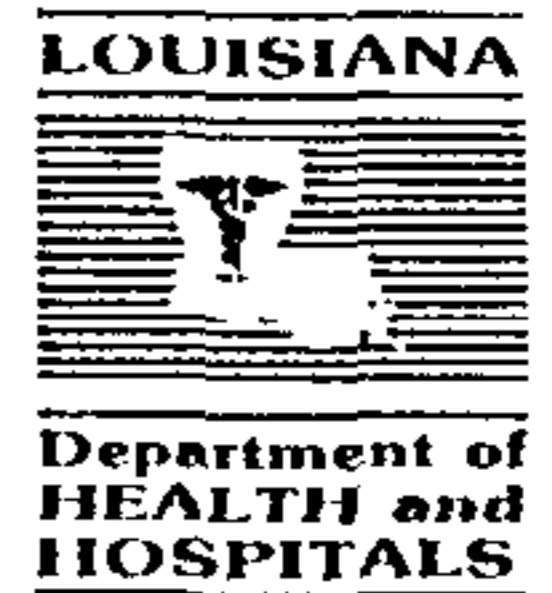
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Appendix A

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



STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS
OFFICE FOR CITIZENS WITH DEVELOPMENTAL DISABILITIES



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

David W. Hood
SECRETARY

June 14, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

We have received your audit finding "Noncompliance with State's Movable Property regulations". We concur with the audit finding and recommendation.

The corrective action plan includes the following:

1. We have established procedures to ensure compliance with state movable property regulations in regards to the time limitations on tagging and reporting receipt of property into the state master inventory control system. The Movable Property Reconciliation will be used to reconcile between ISIS and the Louisiana Property Assistance Agency (LPAA) reports in a timely manner to alert our Property Control Manager of any discrepancies. The anticipated completion date for reconciling all prior monthly Movable Property Reconciliations is August 1, 1999.
2. We have established procedures, effective immediately, to randomly test 10% of the annual certifications made by the departmental property managers to ensure that all information is complete and accurate. This test audit will be performed by the Property Control Manager and audit findings reported to the MR/DD Regional Associate Administrator.
3. We have established procedures, effective immediately, to require independent review and approval of all items deleted from our movable property inventory.

Dr. Daniel G. Kyle, CPA, CFE

June 14, 1999

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The Facility Maintenance Manager 4 must approve all the BF-11's for disposition prior to requesting approval from the State Property Control Director. When the BF-11 is approved by LPAA, the Facility Maintenance Manager 4 will initial the pink copy and the Property Control Department will properly dispose of the item.

As required by OMB Budget Circular A-133, the contact persons for Pinecrest Developmental Center regarding this finding are Mrs. Sondra Birdwell, Property Control Manager and Mrs. Monica M. Dennis, Accountant 3. The contact persons for Leesville Developmental Center regarding this finding are Mr. Charles Weeks, Hospital/Facility Service Director 1 and Mr. Tommy Brooks, Accountant 2.

Should you have any questions regarding our response or corrective action taken, please advise.

Sincerely,

EDWIN M. WRIGHT
MR/DD REGIONAL ADMINISTRATOR



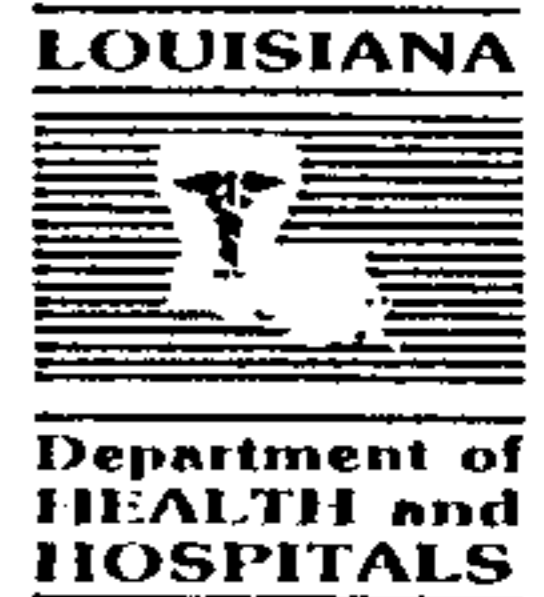
Mickey D. Pigg
MR/DD Regional Associate Administrator

EMW:MDP:JJH

cc: Stan Mead
Gwen B. Johnson
Bruce Blaney



STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS
OFFICE FOR CITIZENS WITH DEVELOPMENTAL DISABILITIES



M.J. "Mike" Foster, Jr.
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David W. Hood
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June 14, 1999

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

We have received your audit finding "Inadequate Payroll Policies and Procedures". We concur with the audit finding and recommendation.

The corrective action plan includes the following:

1. We will continue to stress to the timekeeping unit managers the importance of following the policies and procedures on time and attendance. The timekeeping unit managers are required to verify and certify the accuracy and completeness of their time and attendance records. They must ensure that time and attendance records are processed properly and in a timely manner.
2. The Payroll Office will continue to periodically audit the timekeeping unit manager's pay period files to determine whether the policies and procedures are being followed. Any weaknesses found will be reported to management with recommendations. We will also use these audits to monitor these controls to ensure that they are operating as intended.

As required by OMB Budget Circular A-133, the contact persons regarding this finding are Ms. Judy Richard, Human Resource Director and Ms. Mary L. Lafargue, Payroll Accounting Supervisor.

Dr. Daniel G. Kyle, CPA, CFE
June 14, 1999
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Should you have any questions regarding our response or corrective action taken, please advise.

Sincerely,

EDWIN M. WRIGHT
MR/DD REGIONAL ADMINISTRATOR



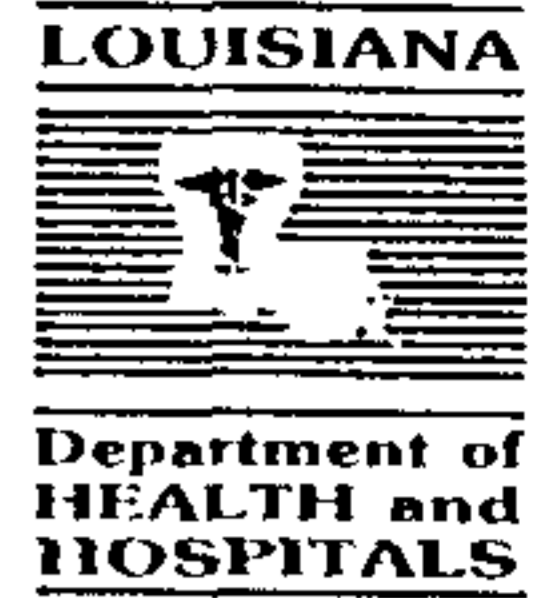
Mickey D. Pigg
MR/DD Regional Associate Administrator

EMW:MDP:JJH

cc: Stan Mead
Gwen B. Johnson
Bruce Blaney



STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS
OFFICE FOR CITIZENS WITH DEVELOPMENTAL DISABILITIES



June 14, 1999

M.J. "Mike" Foster, Jr.
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David W. Hood
SECRETARY

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of the legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

We have received your audit finding "Controls Over Inventory of Materials Supplies". We concur with the audit finding and recommendation.

The corrective action plan includes the following:

1. We have established procedures to monitor the reconciliation of receipts and issues in the perpetual inventory records to the increases and decreases in the general ledger (ISIS). This is to ensure that the reconciliations are prepared in a timely manner. The reconciliation of receipts and issues will provide assurance that the inventory of materials and supplies is properly reported in the financial statements. The anticipated completion date for reconciling all prior monthly Reconciliation of Receipts and Issues is August 1, 1999.
2. We have established procedures, effective immediately, to require a review of the final count sheets, which summarize the physical count of the inventories, by the independent reviewers. The independent reviewers, which consist of the team counter and the test counter, will then sign or initial the final count sheets to verify the physical count and attest to the reconciliation of all count sheets.
3. We have established procedures, effective immediately, to require a review of periodic inventories by independent reviewers. These reviewers will test count the physical counts. We will continue phasing-in the periodic inventories into our perpetual inventories system. Until all are phased-in, we will do random test counts to verify the accuracy of the physical count.
4. Leesville Developmental Center will establish procedures whereby the warehouse personnel who receive and issue will not be authorized to update perpetual records. The custodial function of the perpetual inventory will be performed by employees in the accounting office.

Dr. Daniel G. Kyle, CPA, CFE

June 14, 1999

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5. Warehouse personnel at Leesville Developmental Center will no longer perform physical counts, this function will be performed by individuals not assigned to the Business Office. Upon completion of the physical counts, the quantity and value of the adjustments will be reviewed by the Facility Service Director (FSD), upon approval of the FSD, the accounting office will then make the adjustments to the perpetual inventory. The FSD will ensure that random test of the perpetual inventory are conducted on a monthly basis.

As required by OMB Budget Circular A-133, the contact persons for Pinecrest Developmental Center regarding this finding is Ms. Favia D. Berry, Inventory Control Supervisor. The contact persons for Leesville Developmental Center regarding this finding is Mr. Charles Weeks, Hospital/Facility Service Director 1.

Should you have any questions regarding our response or corrective action taken, please advise.

Sincerely,

EDWIN M. WRIGHT
MR/DD REGIONAL ADMINISTRATOR



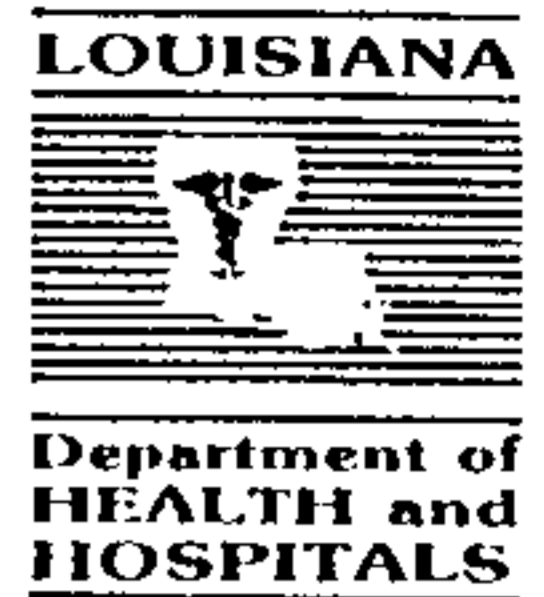
Mickey D. Pigg
MR/DD Regional Associate Administrator

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June 14, 1999

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Legislative Auditor
Office of the legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

We have received your audit finding "Inadequate Controls over Cash and Cash Account" at Leesville Developmental Center, our satellite facility. We concur with the audit finding and recommendation.

The corrective action plan for the controls over cash collections are the following:

1. The Office Coordinator 1, Social Services Department, collects clients' cash, checks, and money orders and prepares written receipts on a timely basis. The above items are immediately placed in the safe located in the Office Coordinator 1's office. The safe is accessible to the Social Services Counselor 2 in the absence of the Office Coordinator 1.
2. Checks are stamped with a restrictive endorsement immediately upon receipt.
3. The Office Coordinator 1 reconciles the written receipts to total collections when the funds are transmitted to the Business Department for deposit.
4. The Office Coordinator 1 remits a "Donor's Report" to the Accountant or to the Accountant Technician daily for the clients' accounts.
5. The Auxiliary Fund receipts will be remitted to Pinecrest Developmental Center on a weekly basis.

The corrective action plan for the controls over cash accounts are the following:

1. The bank balance for the client accounts will be reconciled to the client account subsidiary ledger. The reconciliation will be reviewed by the Facility Service Director.
2.
 - a) When Vernon Industries obtains employment, the date the job is performed and who the job is for is entered on a monthly invoice log.
 - b) Upon completion of project, an invoice is written, the original given to

Dr. Daniel G. Kyle, CPA, CFE
June 14, 1999
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- the customer and the yellow copy maintained by Vernon Industries. The invoice number is written in the monthly invoice log.
- c) When monies are received from a customer a receipt is written denoting date, who it is from, the invoice number it is paying, the type of payment (cash, check, etc.), and signed by the person receiving the payment.
 - d) As payments are received, they are entered on the donor's report, a number is assigned to this report, customers name, the invoice number, receipt number, type of payment, and amount of payment. This report will be totaled each day by 2:00 PM and signed by the person remitting the report.
 - e) The total of the donors report will be entered on a receipt. The donor report and the receipt should be remitted to the business office by 2:30 PM each working day.
 - f) Someone from the business office will visit Vernon Industries on a weekly basis to ensure that all receipts equal amounts on donors report.
 - g) The center will establish and maintain a control account with individual ledger sheets for charge customers for its auxiliary service. This account will be reviewed by the Facility Service Director.

As required by OMB Budget Circular A-133, the contact persons regarding this finding is Mr. Charles Weeks, Hospital/Facility Service Director 1 at Leesville Developmental Center.

Should you have any questions regarding our response or corrective action taken, please advise.

Sincerely,

EDWIN M. WRIGHT
MR/DD REGIONAL ADMINISTRATOR



Mickey D. Pigg
MR/DD Regional Associate Administrator

EMW:MDP:JJH

cc: Stan Mead
Gwen B. Johnson
Bruce Blaney