STATE OF LOUISIANA
LEGISLATIVE AUDITOR

New Orleans Home and
Rehabilitation Center
Department of Health and Hospitals
State of Louisiana
New Orleans, Louisiana

September 29, 1999

Financial and Compliance Audit Division

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

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NEW ORLEANS HOME AND REHABILITATION CENTER
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA

New Orleans, Louisiana

Management Letter
Dated August 31, 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.

September 29, 1999

OFFICE OF
LEGISLATIVE AUDITOR
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August 31, 1999

**NEW ORLEANS HOME AND
REHABILITATION CENTER
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 Home and Rehabilitation Center. Our procedures included (1) a review of the rehabilitation center's internal controls; (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 prior report recommendations.

The Annual Fiscal Reports of the New Orleans Home and Rehabilitation Center are not within the scope of our work, and, accordingly, we offer no form of assurance on those reports. The rehabilitation center'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 rehabilitation center 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 February 18, 1997, we reported findings related to consumable inventory, professional service contracts, electronic data processing, and financial reporting. These findings have 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.

Weaknesses in Controls Over Cash Receipts and Disbursements and Theft of Funds

The New Orleans Home and Rehabilitation Center did not have adequate internal controls over cash receipts and disbursements associated with the Resident Trust Fund. Good internal controls should provide for the adequate segregation of duties and an appropriate system of authorization and approval of transactions to safeguard assets, to ensure that accounting data are both accurate and reliable, and to ensure that errors and/or fraud are detected in a timely manner.

There was inadequate segregation of duties in that the fiscal officer, Mr. James F. Reese, performed incompatible functions. This individual was entrusted with the maintenance of accounting records, including budgets and approvals. He had custody of blank checks and was one of the required check signers. He also performed bank reconciliations and posted accounting entries. There were also no reconciliations between the individual resident account balances and the balances contained in the Resident Trust Fund bank accounts. This inadequate segregation of duties and the lack of reconciliations resulted in a theft of Resident Trust Fund monies.

In an internal review report dated April 9, 1999, the Department of Health and Hospitals, Bureau of Internal Audit reported that the former fiscal officer misappropriated $18,485 of Resident Trust Fund monies. The misappropriations occurred during the period February 4, 1998, through October 26, 1998, and involved nine separate incidents, ranging in amounts from $993 to $3,875. There were also two other instances where the former fiscal officer attempted to negotiate checks totaling $8,951 and $9,946, respectively. These two attempts at a further misappropriation of funds failed when the bank made inquiries to the center's management about missing endorsements on the checks.

Management is responsible for maintaining a system that adequately safeguards assets and results in the reporting of accurate financial data. Failure to provide such a system does not assure management that errors and/or fraud are being detected in a timely manner. Management's high regard for the integrity of the fiscal officer and the lack of emphasis on sound policies and procedures that safeguard assets resulted in the possible theft and abuse of public funds. The former fiscal officer's actions indicate possible violations of Louisiana Revised Statute (R.S.) 14:67, "Theft"; R.S.14:72, "Forgery"; R.S. 14:134, "Malfeasance in Office"; and R.S. 42:1461(A) "Obligation Not to Misuse Public Funds." Although management of the center and the Department of Health and Hospitals received a copy of the Bureau of Internal Audit's report in April 1999, the District Attorney of Orleans Parish was not formally notified of the theft, as of August 31, 1999.

The New Orleans Home and Rehabilitation Center should establish internal control policies and procedures that are designed to prevent and/or detect fraudulent transactions and restrict the assignment of incompatible functions. Management should also notify the district attorney of any thefts that occur as soon as it becomes aware of such thefts. Management concurred with our finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

Noncompliance With Year 2000 Regulations

The New Orleans Home and Rehabilitation Center has not complied with executive orders designed to ensure that computer equipment and software are Year 2000 compliant by the turn of the century. Executive Order MJF 96-50, as amended by Executive Order MJF 98-04, requires all departments to evaluate the impact of Year 2000 on their computer information systems to determine which systems must be corrected or replaced as a result of the potential adverse impact of the Year 2000. Departments were ordered to initiate corrective action that will be effective on or before July 1, 1999, to ensure that their services and/or operations will not be interrupted because of the Year 2000. The center uses electronic data processing equipment and software that are not Year 2000 compliant for the automated time clock, the perpetual consumable inventory control, and the resident trust accounting systems. The Year 2000 issue is critical because many computer systems were not designed to accommodate a four-digit year date, such as 1999 or 2000, and may sort and process dates using just the last two digits (00) of the year. By using only the last two digits, the computer may read the 2000 date as the year 1900, and may process information incorrectly.

The three systems mentioned previously will not be Year 2000 compliant by July 1, 1999, because the center did not become aware of the executive orders or the availability of Year 2000 funding until February 25, 1999. Therefore, the 1999 fiscal year budget does not contain Year 2000 planning and upgrade funding. Applications for funding were submitted March 4, 1999, March 30, 1999, and April 22, 1999, totaling $40,000, $40,157, and $35,245, respectively. However, none of the requests were funded. Failure to upgrade systems timely reduces the opportunity for corrective actions, if needed, which may impair the center's ability to accurately process payroll, consumable inventory, and patient trust transactions.

The New Orleans Home and Rehabilitation Center should develop a plan to address the Year 2000 issue. The plan should not only include acquiring computer hardware and software that is Year 2000 compliant, but should also include contingency plans that would address the loss of key systems as a result of unexpected Year 2000 problems. Management concurred with our finding and recommendation and outlined a plan of corrective action (see Appendix A, page 3).

In addition to the findings previously mentioned, the New Orleans Home and Rehabilitation Center was cited for weaknesses in controls over time and attendance records in a report dated February 12, 1999, issued by the Department of Health and Hospitals, Bureau of Internal Audit. The report cited weaknesses in payroll relating to inadequate documentation, lack of supervisory review, missing leave slips, overtime work at home, and input of payroll information.

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

This report is intended for the information and use of the rehabilitation 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,

Daniel G. Kyle

Daniel G. Kyle, CPA, CFE
Legislative Auditor

EB:LWM:RCL:dl

[NOHRC]

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

LOUISIANA
Department of HEALTH and HOSPITALS
David W. Hood
SECRETARY

September 9, 1999

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor
Xerox Centre, Suite 260
2400 Veterans Blvd
Kenner, LA 70062

Dear Mr. Kyle:

This letter is in response to the legislative auditor finding that we did not have adequate controls over cash receipts and disbursements associated with resident trust.

We concur with the finding that we did not have adequate controls over cash receipts and disbursements associated with resident trust.

This is a small facility with a large turnover. We were without various staff positions and continue to work with limited staff and resources in our fiscal office. We have reviewed every position in the fiscal office and are setting up a system of cross training that should assist in adequate segregation of duties. Each individual in the fiscal department has been made aware of their responsibilities and need to report to Administration any inequities in procedures in the office.

Administration has asked for training in budget and accounting procedures from DHH, so they will be more familiar with accounting functions and overview. DHH will also be encouraged to audit the fiscal program more regularly.

Administration though, must have a high regard for its executive team and their integrity. With limited training in accounting procedures we must depend on internal audits to point out weaknesses in procedures. With staff shortages, due to turnover, small offices will always have the potential for inadequate segregation of duties.

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NOHRC management reported to both the DHH Legal Department (Region 1 and Baton Rouge) as well as to the Internal Audit Department immediately on discovering the fraud. We were assured throughout this investigation that DHH Legal was handling the investigation and were pursuing legal action. DHH Legal has not reported the misappropriation of funds to the Orleans Parish District Attorney at this time because they are waiting to see if the restitution agreement is satisfied.

NOHRC management also reported this information to DHH Health Standards as required by law on December 28, 1998 and again on April 22, 1999. We do not know if the Attorney General's office will pursue any charges.

We will do our best to review approval authorizations and to segregate responsibilities within the office and reaffirm with staff the need for vigilance in following procedures and the ability to report inequities to Administration.

Should you have any further questions, please contact me.

Sincerely,

Gary de Leaumont

Gary de Leaumont, NFA
LTC Hospital Administrator

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

STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS

LOUISIANA
Department of
HEALTH and
HOSPITALS
David W. Hood
SECRETARY

July 22, 1999

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor
Xerox Centre, Suite 260
2400 Veterans Blvd
Kenner, LA 70062

Dear Mr. Kyle:

This letter is in response to the legislative auditor finding that our facility is not Y2K compliant by July 1, 1999 as required by Executive Order MJF 98-04.

We concur with the finding that we are not Y2K compliant because our hardware/software was not compliant on July 1, 1999.

The facility began taking corrective action to resolve this problem in March of 1999. We met with D. H. H. officials and submitted requesr for funding of our needed equipment. We have met with Pat Potier, Director of Information Technology, he has reviewed and approved our Y2K plan. We ordered most of the hardware for Y2K compliance and will receive it by July 23, 1999. The hardware/software for the consumable inventory is being reviewed by D. H. H. and the time clock / payroll equipment is out on bid and should go to D. H. H. for approval by August 15, 1999. Once approval is given, we should be able to have all systems upgraded by the end of the year.

Evelyn Henry, our purchasing agent is coordinating the bids and purchases of the equipment. Aaron Bowlware, information technology and Kevin Comboy, Human Resources Director formulated the plan and are carrying it out. Pat Potier and Clich Dawkins, D. H. H. are responsible for approvals at the D. H. H. level.

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Our contigency plan for inventory and payroll is to return to a manual inventory and payroll system if funding is not available.

Should you have any further questions, please contact me.

Sincerely,

Gary de Leaumont

Gary de Leaumont, NFA
LTC Hospital Administrator