

# LEGISLATIVE AUDITOR

STATE OF LOUISIANA

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

PROCEDURAL REPORT  
ISSUED JULY 21, 2004

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

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STEVE J. THERIOT, CPA  
LEGISLATIVE AUDITOR

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May 12, 2004, except for Management's Corrective  
Action Plans and Responses (Appendix A) dated  
June 29, 2004, and June 15, 2004

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

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at the Hammond Developmental Center. Our procedures included (1) a review of the center's internal controls; (2) tests of financial transactions for the period from July 1, 2002, through May 12, 2004; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the period from July 1, 2002, through May 12, 2004; 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 center 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 the Hammond Developmental Center were not audited or reviewed by us, and, accordingly, we do not express an opinion on these reports. The center'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 the Hammond Developmental Center, dated February 28, 2002, we reported findings relating to the failure to update and reconcile inventory records, the lack of segregation of duties in the ISIS/HR system, and the untimely reporting of delinquent receivables. The finding relating to the untimely reporting of delinquent receivables has been resolved by management. The findings relating to the failure to update and reconcile inventory records and the lack of segregation of duties in the ISIS/HR system 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.

**Failure to Update and Reconcile Inventory Records**

For the second consecutive audit, the Hammond Developmental Center did not maintain adequate perpetual inventory records for its pharmacy inventory. Adequate internal control would include accurate perpetual inventory records, which reconcile to the inventory amounts on hand. In our physical count of 20 items, 10 items (50%) did not agree to the amounts recorded in the perpetual inventory system. The center was unable to reconcile these item counts to the perpetual inventory records.

Failure to maintain and reconcile a proper perpetual inventory system increases the risk that losses will occur and remain undetected. The center should ensure that inventory procedures are adequately followed, including accurate perpetual inventory records that reconcile to the number of items on hand. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 1-2).

**Inadequate Controls Over the ISIS/HR System**

For the second consecutive audit, the Hammond Developmental Center has not maintained adequate internal control over the state’s computer-related human resources and payroll system (ISIS/HR). An adequate system of internal control requires that individuals be permitted access only to data files and functions necessary to perform their normal duties. Furthermore, a periodic review of user access should be done to eliminate unnecessary access.

A review of individuals with access to ISIS/HR revealed three Employee Administration (EA) personnel had access that allows them to perform the incompatible activities of (1) creating a new position and maintaining existing positions; (2) entering new hires including basic pay, merit increases, and entering terminations; (3) changing or entering time sheet data on any employee; and (4) entering retroactive calculations that could affect an employee’s paycheck. In addition, five employees have access to the retroactive calculation processor in ISIS/HR.

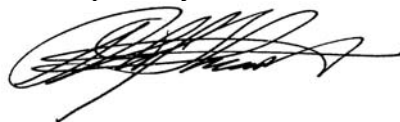
Failure to establish adequate controls in an on-line data entry environment increases the risk that errors or fraud could occur and not be detected in a timely manner. Furthermore, failure to establish adequate segregation of duties and lack of appropriate monitoring could allow an EA employee to enter fictitious employee bank account and payroll information and fraudulently receive paychecks without being detected.

Management should establish written procedures that require the security administrator to regularly review user access to ISIS/HR and eliminate unnecessary access. In addition, management should separate the duties and the system accesses that allow the performance of incompatible functions by one individual. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 3).

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the center. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the center should be considered in reaching decisions on courses of action.

This report is intended solely for the information and use of the center 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

LPG:ES:PEP:ss

[HDC04]



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MANAGEMENT'S CORRECTIVE ACTION  
PLANS AND RESPONSES





Kathleen Babineaux Blanco  
GOVERNOR

STATE OF LOUISIANA  
DEPARTMENT OF HEALTH AND HOSPITALS



Frederick P. Cerise, M.D., M.P.H.  
SECRETARY

June 29, 2004

Mr. Grover C. Austin, CPA,  
First Assistant Legislative Auditor.

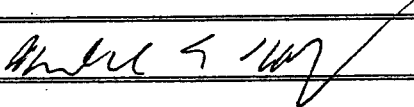
Dear Mr. Austin,

**Failure to Update and Reconcile Inventory Records**

Hammond Developmental Center agrees with the above referenced Finding as it relates to the Pharmacy Inventory only. The following change in policy and procedures and timelines have already gone into effect as of April 1, 2004. See attached Policy and Procedure #129.

Yours sincerely,

Stanley E. Baham  
Fiscal Officer

HAMMOND DEVELOPMENTAL CENTER AGENCY POLICIES AND PROCEDURES	POLICY # 129
SUBJECT: Pharmacy Inventory Procedure	DEVELOPED BY: Fiscal
APPLICABLE DEPARTMENTS: Pharmacy, Accounting	
ADOPTED: 6/15/04    IMPLEMENTATION DATE: 6/29/04	REVISED:
APPROVED: 	REVIEWED:

### Pharmacy Inventory Procedure

**1. Policy**

It is the policy of Hammond Developmental Center to provide accurate updated and reconciled pharmacy records.

**11. Procedures**

- (i) Beginning April 2004, the physical count and reconciliation of the Pharmacy inventory shall be performed monthly by pharmacy and accounting staff.
- (ii) An acceptable variance of up to 5% of total inventory shall be established.
- (iii) The count and reconciliation shall be completed by accounting and the pharmacy by the 20<sup>th</sup> of the succeeding month with written reports submitted to the Health Services Director, the Fiscal Officer and the Administrator.
- (iv) Monthly results will always go to the Health Services Director, Fiscal Officer and Administrator for any needed corrective actions.

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**Applicable Regulations:**

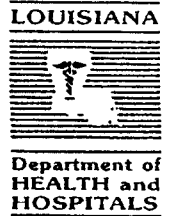
Title XIX Reference(s): N/A

Accreditation Council Reference(s): N/A



Kathleen Babineaux Blanco  
GOVERNOR

STATE OF LOUISIANA  
DEPARTMENT OF HEALTH AND HOSPITALS



Frederick P. Cerise, M.D., M.P.H.  
SECRETARY

June 15, 2004

Mr. Grover C. Austin, CPA,  
First Assistant Legislative Auditor

**Re: Inadequate Controls Over the ISIS/HR System**

Dear Mr. Austin,

Hammond Developmental Center agrees with the above referenced Finding as it relates to the ISIS/HR System. Operating procedures A-6 (ISIS HR Validation) and A7 (ISIS HR Security) have been put into practice to correct this finding.

Additionally, no more than two employees of HR-Employee Administration will have access to both ISIS HR Actions and Retrocalculation. Neither of these two employees will be responsible for time entry or prior pay period adjustments. This will be monitored by the HR Director through a bi-weekly ISIS report.

No more than two employees of HR-Payroll will have access to both Time Entry and Retro Calculation. Access is limited to time entry only and will be monitored by the HR Director through a review of Personnel Action Forms and through a bi-weekly ISIS report that will be generated.

Yours sincerely,

Stanley E. Baham  
Fiscal Officer