

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 13, 1987



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STATE OF LOUISIANA
OFFICE OF THE LEGISLATIVE AUDITOR
NEW ORLEANS, LOUISIANA

Financial and Compliance Audit Division

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 June 23, 1987

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.

August 13, 1987



BRANDIE E. VEE, PH.D., CPA, CFE
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June 23, 1987

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

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 1987, 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, 1987, and June 30, 1986; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the years ended June 30, 1987, and June 30, 1986; and (4) a review of compliance with prior year report recommendations.

The Annual Fiscal Reports of the New Orleans Adolescent Hospital are not within the scope of our procedures, and, accordingly, we do not express an opinion or any other 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 management personnel and 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 audit of the New Orleans Adolescent Hospital for the year ended June 30, 1985, we reported findings relating to on line data entry and movable property. These findings have been resolved by management.

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

LEGISLATIVE AUDITOR

**NEW ORLEANS ADOLESCENT HOSPITAL
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STATE OF LOUISIANA**

Management Letter, Dated June 23, 1997

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Inadequate Controls Over Accounts Receivable

The New Orleans Adolescent Hospital does not have adequate controls over the accounts receivable function to ensure that assets are safeguarded properly and that they are reported properly in the financial statements. Effective internal controls require the proper segregation of duties as well as policies and procedures to ensure timely billings for all patient services, timely collection of accounts receivable, and accurate reporting of receivables in the financial statements. We identified the following weaknesses and accounting deficiencies during our review of internal controls:

- One employee initiates accounts receivable matter file changes, receives and records cash collections, and writes off delinquent accounts without supervisory approval. Another employee is responsible for billing, has occasional access to cash collections, and has authority to write off accounts without supervisory approval.
- All patient accounts are not billed on a timely basis. In our review of 20 files, 7 (35 percent) were not billed timely. In addition, for the first two months of the June 30, 1996, fiscal year (July and August), the hospital's accounting records did not include state General Fund Interagency receipts (Medicaid Program).
- The hospital does not maintain supporting documentation for all of the accounts receivable write-offs. In addition, the hospital does not have adequate procedures to collect outstanding amounts owed by patients. In some instances, patient accounts are billed once without any subsequent collection efforts made.
 - We reviewed 8 files for accounts that were written off and found that 7 (75 percent) did not have proper documentation for write-offs.
 - We reviewed 20 files for accounts that were unpaid and found that 8 (30 percent) unpaid accounts were not pursued for collection.
- Due from other agencies (Interagency receipts - Medicaid Program) on the hospital's Annual Financial Report for the year ended June 30, 1996, were overstated by approximately \$1.6 million.

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Failure to develop and implement adequate controls over accounts receivable may result in errors and/or irregularities, including a loss of resources, not being detected in a timely manner.

Management of the New Orleans Adolescent Hospital should segregate the responsibilities for authorizing transactions, recording transactions, and having custody of assets relating to those transactions. Policies and procedures should be established to ensure the timeliness and accuracy of periodic patient billing and proper financial reporting of patient receivables. Policies and procedures should be established for the write-off of accounts receivable. Such policies should require that adequate efforts for collection of accounts be followed before write-offs can be approved and that any write-offs be supported by the proper documentation and approvals. In a letter dated June 20, 1987, Mr. Robert G. Bates, Sr., Associate Administrator, concurred with the finding and stated that the hospital will improve policies and procedures relating to the accounts receivable function separation of duties, billings, write-offs, collections, and reporting.

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.

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,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

DL 1788-2

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