

STATE OF LOUISIANA LEGISLATIVE AUDITOR

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Villa Feliciana Medical Complex
Department of Health and Hospitals
State of Louisiana
Jackson, Louisiana

May 27, 1998



Financial and Compliance Audit Division

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Legislative Auditor*

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**VILLA FELICIANA MEDICAL COMPLEX
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Jackson, Louisiana**

**Management Letter
Dated May 9, 1968**

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.

May 27, 1968



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May 8, 1988

VILLA FELICIANA MEDICAL COMPLEX
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Jackson, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 1988, we conducted certain procedures at Villa Feliciana Medical Complex. Our procedures included (1) a review of the medical complex's internal controls; (2) tests of financial transactions for the years ending June 30, 1986, and June 30, 1987; and (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the years ending June 30, 1986, and June 30, 1987.

The Annual Fiscal Reports of Villa Feliciana Medical Complex were not audited or reviewed by us, and, accordingly, we express no opinion or any other form of assurance on these reports. The medical complex'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 other selected medical complex 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.

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

Inadequate Inventory Controls

Villa Feliciana Medical Complex does not have adequate internal controls over inventory. Adequate internal controls should provide reasonable assurance that inventory items are properly accounted for and safeguarded.

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Management Letter, Dated May 5, 1998

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In our review of the medical complex's inventory controls, the following weaknesses in inventory controls were identified:

1. The pharmacy's automated inventory system tracks inventory issues by patient profile rather than by individual inventory item.
2. The pharmacy's inventory system only increases the total quantity of items on hand for purchases and does not track individual purchases separately nor does it provide a summary of purchases during the year.
3. Documentation of the reconciliation between physical counts of the pharmacy inventory at June 30, 1997, and recorded amounts at June 30, 1997, are not available. As a result, management of the medical complex could not identify a difference of \$108,489 between the value of the physical inventory at the end of fiscal year 1997 and the recorded inventory amounts.
4. Management did not adequately reconcile the June 30, 1997, value of the physical inventory to the June 30, 1997, recorded values for the Central Supply and Warehouse inventories. The unrecorded differences were as follows:
 - Central Supply - \$31,812 (recorded value exceeded value of physical inventory)
 - Warehouse food inventory - \$5,021 (value of physical inventory exceeded recorded value)
 - Warehouse supply inventory - \$8,213 (recorded value exceeded value of physical inventory)

These conditions exist because management has not placed sufficient emphasis on adequate inventory controls and on the reconciliation process. Failure to establish adequate inventory controls increases the risk that expenditures and ending inventory could be misstated. Furthermore, failure to reconcile physical inventory totals to recorded totals increases the risk that errors and fraud could occur and remain undetected.

Management of Villa Feliciana Medical Complex should (1) track individual pharmacy inventory purchases, (2) track pharmacy inventory issues by inventory item, (3) maintain documentation for all physical inventory count reconciliations, and (4) identify and resolve any differences between physical inventory totals and recorded

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amounts. In a letter dated May 8, 1999, Mr. Bob L. Wilson, Administrator, concurred with the finding and recommendation and stated that written procedures will be established to address the basic requirements for inventory control to include purchases, issues, reporting, physical counts, reconciliation, spoilage, breakage and theft, and accountability. The anticipated completion date of this corrective action is September 30, 1999.

Inadequate EDP Controls

Villa Feliciana Medical Complex has not established adequate user controls over electronic data processing. Adequate internal controls require that individuals be permitted access only to the data files and programs necessary to perform their duties. Segregation of duties is also necessary to safeguard assets, to ensure that accounting data are both accurate and reliable, and to ensure that errors and fraud are detected within a timely period. During our review of EDP controls associated with the Government Financial System (GFS) and the Automated Governmental Purchasing System (AGPS), the following weaknesses were observed:

- There are no written procedures pertaining to the issuance of user identification (ID) codes or the deletion of user ID codes once an employee terminates or no longer has a legitimate need for access.
- There are no monitoring procedures to ensure that individuals are permitted access only to the data files and programs necessary to perform their duties.
- In our review of the AGPS, 8 of the 18 users who had access to AGPS did not need the access to perform their duties. Furthermore, our review disclosed that two employees had both data entry and approval capabilities.

Failure to establish adequate controls, including segregation of duties, and monitoring procedures in an EDP environment could result in unauthorized access to data, inconsistent application of procedures, and failure to prevent or detect errors or fraud in processing transactions.

Management of Villa Feliciana Medical Complex should establish written procedures for the issuance and deletion of user ID codes and should implement monitoring procedures to ensure that GFS and AGPS access is restricted to individuals with legitimate business needs. Furthermore, procedures should be implemented to ensure that incompatible functions such as data entry and approval of the same transaction

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are not assigned to the same employee. In a letter dated April 14, 1998, Mr. Bob L. Wilson, Administrator, stated that the agency concurred with the finding and recommendation and indicated that by May 15, 1998, written procedures addressing the issuance and deletion of user ID codes will be established and that the Associate Administrator will monitor the ISS Security Table to ensure that individual access is appropriately restricted. In addition, the ACPIS security level of the 11 individuals cited will be modified to restrict or remove access.

Lack of Authorization for Purchases

Villa Feliciana Medical Complex has not established written policies and procedures to ensure that all low dollar order (LDO) purchases (less than \$500) are properly authorized. Adequate internal controls require authorization of these purchases by an appropriate level of management to ensure that they are necessary and appropriate for the operations of the medical complex.

The medical complex processed approximately 2,050 LDO purchases during fiscal year 1997. Although the informal policy of the medical complex is to have management approval of all LDO purchases, this policy has not been applied consistently. In our test of 56 LDO purchases made during fiscal years 1996 and 1997, we noted that 24 of these purchases (43%) were not properly authorized by management.

Because management has not formally established written policies and procedures for the proper authorization of LDO purchases, there is an increased risk that errors and fraud could occur and remain undetected.

Management of Villa Feliciana Medical Complex should establish written policies and procedures to ensure that all LDO purchases are properly authorized by management. In a letter dated April 14, 1998, Mr. Bob L. Wilson, Administrator, stated that the agency concurred with the finding and recommendation and that written procedures will be established by May 15, 1998, to ensure the proper authorization of LDO purchases.

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

Legislative Auditor

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This report is intended for the information and use of the medical complex 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

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pmw