

LEGISLATIVE AUDITOR

STATE OF LOUISIANA



MENTAL HEALTH AREA A
OFFICE OF MENTAL HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
MANDEVILLE, LOUISIANA

AUDIT REPORT
ISSUED JUNE 9, 2004

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
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May 6, 2004

MENTAL HEALTH AREA A
OFFICE OF MENTAL HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Mandeville, Louisiana

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at Mental Health Area A, which is comprised of Southeast Louisiana State Hospital, New Orleans Adolescent Hospital, and the mental health clinics and pharmacies in Regions I, III, and IX. Our procedures included (1) a review of the area's internal control; (2) tests of financial transactions for the period from July 1, 2002, through May 6, 2004; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the period from July 1, 2002, through May 6, 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 other selected 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 Mental Health Area A were not audited or reviewed by us, and, accordingly, we do not express an opinion on these reports. The area'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 Area A for the two years ended June 30, 2002, dated April 5, 2002, we reported findings relating to untimely deposits of cash receipts at New Orleans Adolescent Hospital and weaknesses in controls over payroll at New Orleans Mental Health Clinic. Management has resolved these findings.

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

Weaknesses in Controls over Payroll

Southeast Louisiana Hospital, a facility within Mental Health Area A, has weaknesses in controls over payroll expenditures. Hospital supervisors are not certifying employee attendance and certain employees did not submit leave slips for time taken off from work. Twelve of 31 (38.7%) time sheets reviewed were not certified by the employee's supervisor. Five of 17 (29.4%) employees did not submit a leave slip for leave taken during the periods reviewed. Four of 11 (36.4%) employees reviewed earned overtime without prior approval from their supervisor. For three of 31 (9.7%) employees reviewed, payroll data entered into the ISIS/HR system did not match that shown on employee time sheets.

Department of State Civil Service Rule 15.2 requires the employee and supervisor to certify the actual number of hours of attendance and absence from duty on the time and attendance record. Rule 11.7(a) requires employees to apply for leave and obtain approval by the appointing authority or his designated representative. Under DHH Policy 8131-98, no employee shall work overtime without prior approval unless a critical, non-emergency or an emergency situation exists. In addition, good internal control requires (1) supporting documentation for all detailed transactions; (2) transaction review and approval by an appropriate supervisor; and (3) validation (or reconciliation) of information entered into the accounting system to original documentation.

Failure to adhere to payroll internal control procedures renders the controls ineffective, making the hospital vulnerable to the risk that overpayments to employees could be made that remain undetected, overtime and leave may be improperly earned and accrued, and incorrect payroll information may be entered into the payroll system and remain undetected. There is also an increased risk of payroll fraud. Material errors or fraud could also distort the hospital's payroll data, impact the area's annual financial report, and adversely affect programs administered by the hospital.

Management should take measures necessary to ensure that hospital supervisors certify all employee time sheets, approve and maintain leave slips for employee absences, approve all overtime earned by employees, and verify that payroll data entered into the ISIS/HR system agrees with employee time sheets. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 1-6).

The recommendation in this report represents, in our judgment, that most likely to bring about beneficial improvement to the operations of Area A. The nature of the recommendation, its implementation costs, and potential impact on the operations of Area A should be considered in reaching decisions on courses of action. The finding relating to the area's compliance with state regulations should be addressed immediately by management.

This report is intended solely for the information and use of Mental Health Area A 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,



Grover C. Austin, CPA
First Assistant Legislative Auditor

KML:JR:PEP:ss

[MHAA04]



MANAGEMENT'S CORRECTIVE ACTION PLAN AND RESPONSE





Kathleen Babineaux Blanco
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS



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

March 15, 2004

Mr. Grover C. Austin, CPA
First Assistant Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

This letter serves as the official response to the audit findings of Southeast Louisiana Hospital requested in the March 11, 2004 letter from Mr. Jullin Renthrope of your staff.

FINDING: Weakness in Controls over Payroll. This finding identified the following inadequacies in payroll controls:

- *Supervisors are not certifying employee attendance (38.7%)*
- *Leave slips are not being submitted by employees (29.4%)*
- *Overtime earned without advance approval (36.4%)*
- *Payroll data entered into ISIS/HR did not match information on timesheets (9.7%)*

Response and Corrective Action Plan – I concur with the finding as written. I have taken several actions based on preliminary information received from the Legislative Auditors or internal audits conducted by Employee Administration. I feel that the action already taken has corrected the deficiencies and that increased internal audits by Employee Administration will prevent recurrence. Actions already initiated include the following:

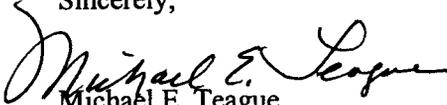
- I called a special Department Head meeting on November 17, 2003 to specifically address payroll issues. During this meeting, I stressed to Department Heads that supervisors are to *verify the information* contained on the employee timesheet, and that their *signature certifies* that the information is accurate (Attachment 1).
- On December 4, 2003, at my direction, the Human Resources Director sent a memorandum to Department Heads and Time Administrators implementing specific steps in processing payroll. Included was the requirement for *supervisors to review time and attendance (T & A) records* to ensure accuracy and to *verify that leave forms and overtime forms are attached to the T & A record*. Also included was the requirement for the *supervisor to compare the ZT-02 (Time Entry Audit Report) against the T & A record* and to certify the accuracy by signing the ZT-02 (Attachment 2).

- The December 4, 2003 memorandum also required Time Administrators to generate a ZT-02 immediately after completing time entry and prior to lockout in order to identify errors prior to lockout. Additionally, Time Administrators are to generate a ZT-09, (Time Entry Summary Report) and compare the data to the required physical data (e.g. leave request). Due to the large number of staff, and the time it takes to review the reports, Nursing Service has been exempted from generating these two reports (Attachment 3). Nursing Service is, however, required to generate and audit the ZT-02 on the Tuesday following the end of the pay period.

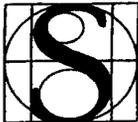
I feel that with the actions already taken as indicated above, combined with close monitoring in the form of increased internal audits, we are now in compliance and will remain so.

Contact Persons: Gordon Wimberly, HR. Director 3, (985) 626-6447, gwimberl@dhh.la.gov
Karen Roy, HR Analyst 3, (985) 626-6447, kroy@dhh.la.gov

Sincerely,


Michael E. Teague
Chief Executive Officer

cc: J. Renthrope, CPA
J. Vinturella, LCSW, OMH Area A Director

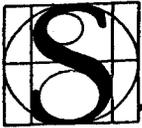


MEMORANDUM FOR RECORD

The CEO called Department Heads together on November 17, 2003, to discuss issues surrounding payroll processing. During this meeting, the HR Director reminded those in attendance of the following:

- Each employee is responsible for signing in and out on a daily basis.
- No one is to sign in or out for another employee.
- Appropriate documentation is to be attached to the time sheet (i.e., leave slips, overtime sheets, on-call sheet, etc.).
- Supervisors are to verify information on the time sheet. Their signature says that the information contained therein is correct.
- Employees have a designated 30-minute lunch break. Employees cannot work through their lunch break in order to obtain overtime, nor can they take their lunch break to coincide with their arrival or departure from work.

Department Heads were reminded to have the Time Administrators contact Employee Administration if questions arise.



December 4, 2003

MEMORANDUM

TO: Department Heads
Timekeepers

FROM: Gordon Wimberly

RE: Corrective Procedures to Reduce Timekeeper Errors

The following procedures are being implemented immediately in an effort to resolve timekeeper errors which have resulted in the overpayment of employees recently:

Timekeepers Shall:

1. Review the time and attendance sheets, leave slips, and overtime approvals, of each employee to ensure accuracy of information, completion of forms, and authorization for payment.
2. Enter time and attendance daily if possible, but at least three days a week.
3. Generate a ZT-09, Time Entry Summary Report, each Friday to review leave taken and earned, and compare the data to the physical documents (time and attendance sheet, leave slip etc.)
4. Generate a ZT-02, Time Entry Audit Report, immediately after completing time entry and prior to timekeeper lockout, to review against the time and attendance sheets so that errors can be identified *before* lockout.
5. Generate a ZT-02 on the Tuesday following the end of the pay period. Audit the ZT-02 against the time and attendance sheets. The timekeeper's supervisor shall be notified of any inconsistencies so that corrective action can be initiated. *Contact Human Resources/Employee Assistance immediately if errors are detected which would result in an employee receiving incorrect pay.* This is the "official" report and should be kept with the time and attendance records for auditing purposes.

Corrective Procedures to Reduce Timekeeper Errors

December 4, 2003

Page 2

Timekeeper Supervisors Shall:

1. Review the time and attendance records to assure employees are completing them accurately and timely. Verify that approved leave request forms and/or overtime forms are attached to the time and attendance records as documentation for time entry.
2. Review the ZT-02 against the time and attendance records to ensure that the timekeeper is entering the time accurately and timely. *Certify the accuracy of the time entries by signing off on the ZT-02.*
3. Monitor and evaluate the timekeeper's compliance with established procedures.

Questions regarding this memorandum should be addressed to Human Resources.



Kathleen Babineaux Blanco
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS



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

MEMORANDUM

DATE: March 15, 2004

TO: Carol Sutton, RN
Nurse Executive

FROM: 
Michael E. Teague
Chief Executive Officer

SUBJ: Nursing Payroll Requirements

In response to our meeting, the following corrected guidelines are provided:

- The policy that this hospital follows is the DHH Policy 1215-92, Payroll Policy and Procedures.
- The following procedures are allowed:
 1. Advance entry is allowed based on the monthly nursing schedule. Advance entry is **NOT** authorized for overtime nor beyond the monthly nursing schedule.
 2. The timekeeping reports ZT-02 shall be generated and audited on the Tuesday following the end of the pay period. The reports shall be made available for review by the Nurse Executive. A copy of the reports shall be filed with the applicable timekeeping records.
 3. By copy of this memorandum, Human Resources is to make available staff to assist Nursing Service in developing the most effective and efficient manner to audit the ZT-02.

Cc: G. Wimberly, Dir. HR